

Technical Cooperation (TC) Document

I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	Mapping infrastructure private investors in Latin America and the Caribbean: challenges of mainstreaming infrastructure as an asset class.
▪ TC Number:	RG-T2643
▪ Associated Loan/Guarantee Name:	n/a
▪ Associated Loan/Guarantee Number:	n/a
▪ Team Leader/Members:	Tomas Serebrisky (Team Leader, INE/INE), Mauro Alem (INE/INE), Diego Margot (INE/INE), Maria Cecilia Ramirez (INE/INE), Laura Rojas (INE/INE), Ancor Suarez-Aleman (INE/INE), Andrés Pereyra (INE/TSP), Lenin Balza (INE/INE), Olga Morales (INE/INE), Betina Henning (LEG/SGO), Liza Lutz (LEG/SGO).
▪ Date of TC Abstract authorization:	June 25, 2015
▪ Donors providing funding:	InfraFund (IPF) Infrastructure Project Preparation Fund
▪ Beneficiary:	Latin American and the Caribbean
▪ Executing Agency and contact name:	Inter-American Development Bank (IDB) through its Infrastructure and Environment Department (INE/INE)
▪ IDB Funding Requested:	US\$600,000
▪ Other Funding:	
▪ Local counterpart funding, if any:	US\$150,000
▪ Disbursement period:	36 months
▪ Required start date:	February 2016
▪ Types of consultants:	Firm and/or Individual Consultants
▪ Prepared by Unit:	INE/INE
▪ Unit of Disbursement Responsibility:	INE
▪ TC Included in Country Strategy:	No
▪ TC included in CPD:	No
▪ TC Taxonomy:	Research and Dissemination
▪ GCI-9 Sector Priority:	(b) Infrastructure for competitiveness and social welfare; (d) Competitive regional and global international integration; (e) Protect the environment, respond to climate change, promote renewable energy, and ensure food security.

II. Objectives and justification of the TC (estimated length: 1 page)

A. Objective

- 2.1. The **general objective** of the “Mapping infrastructure¹ private investors in Latin America and the Caribbean: challenges of mainstreaming infrastructure as an asset class” (the TC) is to provide a full picture of the infrastructure financing market in Latin America and the Caribbean, both from macro and micro levels; and with a focus on the role of institutional investors.
- 2.2. The **specific objectives** of the TC are to: (i) develop a historical analysis of the evolution of private financing of infrastructure investment in LAC; (ii) analyze different channels and instruments used to finance infrastructure; (iii) analyze the main players in the private financing of infrastructure market with emphasis on the channels and instruments used by these main players; (iv) analyze mechanisms (both financial and regulatory) to encourage the participation of institutional investors (those who manage and invest funds belonging to a group of agents, such as pension funds, insurance companies, investment or infrastructure funds - in the infrastructure financing market; (v) understand the specifics of the infrastructure financing process in three (to be determined) LAC countries (case studies); and (vi) provide actionable policy recommendations and suggest tools to develop infrastructure as an asset class.
- 2.3. The present TC address a recurrent problem identified in the IDB’s Infrastructure Strategy (2014): the lack of good quality data in the infrastructure sector. The general and the specific objectives of this TC aim at closing this data gap. Having good quality data is crucial to understand, and provide policy recommendations to enhance the private financing of infrastructure market in LAC, as well as to attract new private investors.

B. Justification

- 2.4. Infrastructure is vital for economic growth and development; production in modern societies and the provision of basic services such as education or health would be impossible without reliable roads, water, sanitation, and electricity. Infrastructure spurs growth by increasing productivity, reducing production costs, facilitating the accumulation of human capital (through easier access to educational opportunities), helping diversify the productive structure, and creating employment (IDB 2014).
- 2.5. When it comes to infrastructure, policymakers, the private sector (service providers and operators, construction firms), and academics are normally concerned with three main

¹ For the purposes of this TC, and in accordance with document AB-2764 and the IDB’s infrastructure strategy (2013), infrastructure includes the following subsectors: transportation, energy (including pipelines), water and sanitation, irrigation, and telecommunications. This definition includes all stages in the infrastructure value chain, from generation or extraction, transportation, and distribution, to use or consumption.

issues: 1) the magnitude of the investment needs; 2) the availability and quality of a pipeline of projects (which is intrinsically linked with the social and private return of investments), and 3) the financing sources and instruments—particularly regarding the contribution of the private financing and donors (Estache, 2014). While the IDB and other knowledge generating actors in the infrastructure finance arena have addressed issues 1) and 2) (see for example Calderon and Serven 2010, Perrotti and Sanchez 2011, Jimenez and Manuelito 2013, Alberti 2014), there is a notable absence of information and critical assessments of 3), particularly for developing regions, being Latin America and the Caribbean no exception. This latter concern constitutes the core of this proposal.

- 2.6. The main case for the provision of infrastructure services is that it directly affects the productivity of the economy. With ample investment in the right areas, productivity growth can be sustained (Spence, 2015). For example, delivering roads and telecommunication services increase the productivity of private capital, by inducing faster and cheaper transportation and communications. In turn, this can lead to increase the scale of production, allowing for more efficient inventory management and access to markets (Straub, 2008). Similarly, good roads and efficient public transportation services can increase the productivity of labor by decreasing workers' daily commuting times. Inadequate infrastructure investment levels are typically pointed as a main cause for unsatisfactory growth performance in the emerging world, with India and Brazil as two emblematic examples (Global Competitiveness Report, WEF 2015).
- 2.7. The push for infrastructure investment requires a coordinated effort between the public and private sectors (IDB's Infrastructure Strategy, 2014). The IDB has estimated that investment in Latin American infrastructure needs to at least double from the current level of 2.5% of GDP. Experience and historical data show that neither the public nor the private sectors will be able to bear the full burden of closing the gap alone. While the public sector has been – and will likely continue to be – the main player in infrastructure funding and financing in LAC, attracting the private sector is one of the most pressing and challenging issues in the infrastructure sector agenda. There is a widespread belief among experts, practitioners and academics in LAC that when governments need to improve their fiscal balances, investment in infrastructure is one of the first items to suffer cuts. Fiscal balances can be improved either by increasing revenues or by reducing current or capital expenditures, but the limited existing data support the second option. In times of deteriorating fiscal balances, allocations to public infrastructure investment are cut (Calderon and Serven, 2003).
- 2.8. In a context of tighter fiscal balances, it is expected that the public sector will not be able to scale up fast its commitment to infrastructure. Hence policymakers continue to look for additional ways to mobilize private savings and channel them to infrastructure. The private sector can contribute with much needed additional resources to provide the additional financing required to close LAC's "infrastructure gap". The private sector also has the capacity to contribute to infrastructure development with technical expertise and management skills.

- 2.9. In order to mobilize private funds to infrastructure, it is crucial to understand who is currently financing (and who could potentially provide funds to) infrastructure projects in LAC, as well as the instruments used and the constraints faced by these agents. There is an urgent need to identify private players in the financing of infrastructure. Additionally, as equity contributions are only growing at a very modest speed, and the financial environment is slowing down the commitment of commercial banks, it is essential to find new players or to scale up the role of current ones (Estache, 2014). Institutional investors, particularly pension funds, insurance companies, and mutual funds, are important players in financial markets. In the countries of the Organisation for Economic Co-operation and Development (OECD) alone, they held more than \$70 trillion in assets under management in 2012. Institutional investors in LAC held just over \$1 trillion in assets under management, or about 20 percent of GDP (OECD 2013), which may play a major role in infrastructure financing if proper incentives and regulatory frameworks are provided, providing the financing which has been delivered so far by commercial banks.
- 2.10. The G-20, OECD and MDBs have been actively developing a knowledge agenda to produce recommendations on how to demonstrate the attractiveness of infrastructure to institutional investors. There have been several reports [produced by the G-20](#) and surveys led by the OECD (see, for example, the OECD's [project on institutional investors and long-term investment](#)) to understand the incentives and needs of long term institutional investors, so as to foster greater appetite for infrastructure assets. The vast majority of the analysis carried out so far focus almost exclusively on advanced economies or developing economies that are OECD members. The activities under this TC will complement and deepen the analysis collecting and analyzing data for LAC and then adapting the policy recommendations to LAC's specific institutional and development context.

III. Description of activities/components and budget (estimated length: 1-2 pages)

- 3.1. This technical cooperation has three components: 1) *Mapping private investment in infrastructure in LAC*; 2) *New players and future trends in private infrastructure investment in LAC: the role of pension and infrastructure funds*; and 3) *Case study on private investment in infrastructure at a country level*.
- 3.2. **Component 1: *Mapping the current private investment in infrastructure in LAC***. This first component aims at analyzing the current and the historical evolution of the private financing of infrastructure in LAC. Specifically, three research questions will be addressed: a) how much the private sector invests through each of the financing channels available (debt or equity; bonds, different funds, stock market, etc.); b) who are the main players in the infrastructure market by financing channel; and c) how specifically different financiers allocate resources to the infrastructure projects". Additionally, the identification of current bottlenecks - such as legal or regulatory barriers - in the infrastructure financing becomes an objective of this document. To the best of our knowledge, there is no comprehensive information on private financing of infrastructure that describes players and instruments used to finance infrastructure projects in LAC. Reports and studies focus on very few countries, or on particular players, but they do not

provide a whole picture of the private financing market. As part of the dissemination strategy, the component includes one seminar, in HQ to present the mapping of private infrastructure investors and main findings.

- 3.3. **Component 2: *New players and future trends in private infrastructure investment in LAC: the role of pension and infrastructure funds.*** The objective of the second component is to analyze the role of institutional players, which has been up to now marginal in infrastructure. These institutional investors can play a major role in the near future. Based on a preliminary review, pension and infrastructure funds stand out as actors with a huge potential role. This component will study how to increase the exposure to infrastructure of these actors. In order to do this, it is necessary to understand, (i) how much funds institutional investors allocate to infrastructure; (ii) which channels or instruments are preferred; (iii) which instruments are good candidates to increase exposure to infrastructure: can the present instruments be scaled up? New instruments are needed? (iv) regulatory environment: is it well developed? Are there any constraints that prevent increasing the participation of these investors in infrastructure? To answer all these questions require a dedicated methodological effort and data collection. As part of this effort, surveys will be conducted to collect data on institutional investors in LAC.
- 3.4. **Component 3: *Case study on private investment in infrastructure at a country level.*** This TC will be supplemented by case studies based on three countries to be determined. Countries are selected based on the degree of involvement of the private sector in infrastructure financing, specifically, considering the countries' experience in private financing of infrastructure and how many instruments the private sector uses to finance infrastructure projects. Case studies will detail the role of private investors in infrastructure: how much they finance, which channels and instruments they use, how they got involved in infrastructure, which infrastructure sectors are chosen and what policy actions are required to scale up their exposure to infrastructure in terms of regulatory environment and financial instruments. Ideally, these countries should have different levels of private sector participation in order to study the causes affecting private sector participation in the financing of infrastructure and its consequences in the overall investment in infrastructure. Colombia, Chile, Peru and Uruguay are initial candidates for this third component. As part of the dissemination strategy, the component includes one seminar, location TBD, to present main findings of the case studies.²

² The team will get the non-objection letters from local authorities before the beginning of the pilot studies.

Table 1. Indicative Results Matrix

Component	Output and Outcome Indicators	Unit	Baseline		Target Expected year		Data Source
	Outputs		value	Year	Plan	Exp. year	
1	Private financing of infrastructure in LAC: players and channels	Database	0	2016	1	Apr 2017	IDB website/Brik
1	A primer on financing infrastructure in Latin America and the Caribbean	Report	0	2016	1	Apr 2017	IDB website/Brik
2	Collect data on private financing from institutional investors: Pension and infrastructure funds surveys	Survey form	0	2016	1	Dec 2017	IDB website/Brik
2	Collect data on private financing from institutional investors: Pension and infrastructure funds surveys	Database	0	2016	1	Dec 2017	IDB website/Brik
1	A report on institutional investors infrastructure financing	Report	0	2016	1	Apr 2017	IDB website/Brik
3	Case studies on infrastructure financing	Report	0	2016	1	Dec 2018	IDB website/Brik
1,3	Dissemination of results (Washington DC and one country in the region to be determined)	Workshop	0	2016	2	2017,2018	IDB website/Brik

A mix of outcome indicators will be used for relevant outputs. In this particular case, the TC team is going to use # of downloads and # of participants to the event satisfied.

- 3.5. INE/INE will have technical and supervisory responsibility through the Team Leader, and will monitor the progress of all TC activities.

I. Budget

Indicative Budget

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding ³	Total Funding
Component 1: 1 Monograph with a description of infrastructure private investment channels and answers to research questions (a), (b) (1) and (c) (2).	Hiring of two individual consultants, plus travel (\$120,000 a year x 2 years + trips to the region estimated at \$40,000) + buying available databases on private investment in infrastructure (\$20,000)	250,000.00	35,000.00	285,000.00
Component 2: 1 Database + 1 Technical Note (TN) with a review of new players.	Hiring of two individual consultants (\$45,000 a year x 1 year) plus travel expenses estimated at \$20,000	100,000.00	10,000.00	110,000.00
Component 2: 2 Databases + 1 TN on pension and Infrastructure funds survey + data analysis	Hiring of two individual consultants to survey funds in the region, including travel (\$40,000 a year x 2 years).	140,000.00	20,000.00	160,000.00
Component 3: 1 Technical note with three case studies of infrastructure investment in three of the following countries: Colombia, Chile, Peru or Uruguay	Hiring of individual consultant, plus travel (\$80,000 a year + trips to the region estimated at \$30,000)	70,000.00	40,000.00	110,000.00
Dissemination	Dissemination of results: publications and organization of seminars with experts in infrastructure finance	40,000.00	45,000.00	85,000.00

³ Local counterpart funding will be in kind resources, and will consist mostly on logistics and secretarial support in the countries where investment measures are made. The actual monetary value of the support will depend on the specifics of each country and amount of resources involved, and it will be estimated by the teams in the fields. Specifically, Central Bank of Uruguay; Ministry of Finance in Uruguay; University of Chile will provide resources in kind.

IV. Executing agency and execution structure (estimated length: 1 page)

- 4.1. This operation will be executed by the IDB through its infrastructure and Environment Department (INE/INE), which will be responsible for all aspects of this TC, including disbursements.
- 4.2. The TC is Bank executed since (i) the topic covered is of a regional and cross-sectorial nature and (ii) the Bank is ideally positioned, given its vast presence in the region, its capacity to engage the most relevant stakeholders, and its knowledge across all infrastructure sectors, to undertake the relevant studies, data gathering necessary to complete this project, and to disseminate the results among relevant actors in the region. It is expected that all countries will be beneficiaries of the outputs of this TC.
- 4.3. Procurement. The Bank will contract individual consultants, consulting firms and non-consulting services in accordance with current Bank procurement policies and procedures.

V. Project risks and issues

- 4.4. Risks of implementation of this TC will be low. This TC perfectly matches to the IDB's Infrastructure Department objectives and the work will be done in-house under the direct guidance of INE's Manager. The only concern, which is common within the infrastructure sector, is the ability to find and gather the necessary data to create a robust, common-to-all-countries methodology, given the lack of information and differences in national accounts across LAC countries. To mitigate these risks the TC team will have the backing of widely recognized researchers – already identified – and other organizations such as the OECD – with experience on the analysis of infrastructure funds – to develop a methodology on data collection and analysis.

VI. Exceptions to Bank policy

- 6.1. No exceptions to IDB's policies are foreseen.

VII. Environmental and Social Strategy

- 7.1 Given the nature of the activities to be financed by this TC, it is expected that no social or environmental impacts will result from this operation. The following TC is expected to be classified as a C operation by ESG.

VIII. Annexes

Annex I. [Procurement Plan](#)

Annex II. [Terms of Reference](#)